

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF PRESCOTT	County OGE MAW
Audit Date 6/30/05	Opinion Date 9/1/05	Date Accountant Report Submitted to State: 9/26/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BERTHIAUME & COMPANY, CPAS			
Street Address 60 HARROW LANE	City SAGINAW	State MI	ZIP 48638
Accountant Signature <i>Kenneth O. Berthiaume</i>		Date 9-26-05	

VILLAGE OF PRESCOTT

Ogemaw County, Michigan

FINANCIAL STATEMENTS

June 30, 2005

VILLAGE OF PRESCOTT

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	3
Statement of Activities.....	4
Fund Financial Statements:	
<i>Governmental Funds:</i>	
Balance Sheet.....	5
Reconciliation of Fund Balances of Governmental Funds to Net Assets of	
Governmental Activities.....	6
Statement of Revenues, Expenditures and Changes in Fund Balances	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	8
<i>Proprietary Fund:</i>	
Statement of Net Assets.....	9
Statement of Revenues, Expenses, and Changes in Net Assets.....	10
Statement of Cash Flows.....	11
<i>Fiduciary Fund:</i>	
Statement of Net Assets.....	12
Notes to Financial Statements.....	14
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	25
Budgetary Comparison Schedule – Special Revenue Fund – Major Street Fund.....	26
Budgetary Comparison Schedule – Special Revenue Fund – Local Street Fund.....	27
Other Supplemental Information:	
<i>General Fund:</i>	
Detailed Schedule of Revenues.....	29
Detailed Schedule of Expenditures.....	30
<i>Nonmajor Governmental Fund:</i>	
Combining Balance Sheet.....	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	34
<i>Fiduciary Fund:</i>	
Combining Statement of Changes in Assets and Liabilities.....	35
Schedule of Indebtedness	36
Management Letter	37

**BERTHIAUME
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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Prescott, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Prescott as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Prescott's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Prescott, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Prescott's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Berthiaume & Co.

September 1, 2005

BASIC FINANCIAL STATEMENTS

VILLAGE OF PRESCOTT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents	\$ 47,150	\$ 48,794	\$ 95,944
Receivables	19,753	13,276	33,029
Internal balances	282	(282)	-
Prepaid expenses	3,942	-	3,942
Capital assets:			
Nondepreciable capital assets	74,327	19,073	93,400
Depreciable capital assets, net	<u>68,339</u>	<u>979,732</u>	<u>1,048,071</u>
Total assets	<u>213,793</u>	<u>1,060,593</u>	<u>1,274,386</u>
Liabilities:			
Accounts payable and accrued expenses	6,721	29,876	36,597
Long-term liabilities:			
Due within one year	15,000	-	15,000
Due in more than one year	<u>60,000</u>	<u>-</u>	<u>60,000</u>
Total liabilities	<u>81,721</u>	<u>29,876</u>	<u>111,597</u>
Net assets:			
Invested in capital assets, net of related debt	36,770	998,805	1,035,575
Restricted for:			
Streets	44,527	-	44,527
Unrestricted	<u>50,775</u>	<u>31,912</u>	<u>82,687</u>
Total net assets	<u>\$ 132,072</u>	<u>\$ 1,030,717</u>	<u>\$ 1,162,789</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs				
<i>Governmental activities:</i>				
General government	\$ 25,239	\$ -	\$ -	\$ (25,239)
Public works	31,519	624	48,643	17,748
Recreation and culture	6,678	-	3,350	(3,328)
Interest on long-term debt	<u>3,936</u>	<u>-</u>	<u>-</u>	<u>(3,936)</u>
Total governmental activities	<u>\$ 67,372</u>	<u>\$ 624</u>	<u>\$ 51,993</u>	<u>\$ (14,755)</u>
<i>Business-type activities:</i>				
Sewer	<u>\$ 40,752</u>	<u>\$ 32,962</u>	<u>\$ -</u>	<u>\$ (7,790)</u>
Total business-type activities	<u>\$ 40,752</u>	<u>\$ 32,962</u>	<u>\$ -</u>	<u>\$ (7,790)</u>

continued

The accompanying notes are an integral part of these financial statements.

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Changes in net assets:			
Net (Expense) Revenue	\$ (14,755)	\$ (7,790)	\$ (22,545)
General revenues:			
Taxes:			
Property taxes, levied for general purpose	17,870	-	17,870
Grants and contributions not restricted to specific programs	24,933	-	24,933
Unrestricted investment earnings	139	64	203
Miscellaneous	<u>1,853</u>	<u>-</u>	<u>1,853</u>
Total general revenues	<u>44,795</u>	<u>64</u>	<u>44,859</u>
Change in net assets	30,040	(7,726)	22,314
Net assets, beginning of year, as restated	<u>102,032</u>	<u>1,038,443</u>	<u>1,140,475</u>
Net assets, end of year	<u>\$ 132,072</u>	<u>\$ 1,030,717</u>	<u>\$ 1,162,789</u>

VILLAGE OF PRESCOTT

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 7,133	\$ 31,897	\$ 4,763	\$ 3,357	\$ 47,150
Due from other governmental units	8,056	9,292	2,405	-	19,753
Due from other funds	282	-	18,451	-	18,733
Prepaid expenditures	<u>3,942</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,942</u>
Total assets	<u>\$ 19,413</u>	<u>\$ 41,189</u>	<u>\$ 25,619</u>	<u>\$ 3,357</u>	<u>\$ 89,578</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable and accrued expenses	\$ 1,297	\$ 3,728	\$ 102	\$ -	\$ 5,127
Due to other funds	<u>-</u>	<u>18,451</u>	<u>-</u>	<u>-</u>	<u>18,451</u>
Total liabilities	<u>1,297</u>	<u>22,179</u>	<u>102</u>	<u>-</u>	<u>23,578</u>
Fund balances:					
Reserved for:					
Prepaid expenditures	3,942	-	-	-	3,942
Unreserved:					
General fund	14,174	-	-	-	14,174
Special revenue funds	<u>-</u>	<u>19,010</u>	<u>25,517</u>	<u>3,357</u>	<u>47,884</u>
Total fund balances	<u>18,116</u>	<u>19,010</u>	<u>25,517</u>	<u>3,357</u>	<u>66,000</u>
Total liabilities and fund balances	<u>\$ 19,413</u>	<u>\$ 41,189</u>	<u>\$ 25,619</u>	<u>\$ 3,357</u>	<u>\$ 89,578</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2005

Total fund balances for governmental funds \$ 66,000

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	163,216	
Less accumulated depreciation	<u>(20,550)</u>	142,666

Interest payable in the governmental activities are not payable from
current resources and therefore are not reported in the governmental
funds. (1,594)

Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Bond payable	<u>(75,000)</u>
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Net assets of governmental activities \$ 132,072

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 17,870	\$ -	\$ -	\$ -	\$ 17,870
State grants	24,933	38,643	10,000	-	73,576
Charges for services	624	-	-	-	624
Interest and rents	52	76	4	7	139
Other revenue	<u>1,353</u>	<u>500</u>	<u>-</u>	<u>3,350</u>	<u>5,203</u>
Total revenues	<u>44,832</u>	<u>39,219</u>	<u>10,004</u>	<u>3,357</u>	<u>97,412</u>
Expenditures:					
Current					
General government	24,784	-	-	-	24,784
Public works	13,199	10,965	2,572	-	26,736
Recreation and culture	6,377	-	-	301	6,678
Capital outlay	455	-	-	-	455
Debt service					
Principal	448	4,269	10,731	-	15,448
Interest and fees	<u>52</u>	<u>1,191</u>	<u>2,994</u>	<u>-</u>	<u>4,237</u>
Total expenditures	<u>45,315</u>	<u>16,425</u>	<u>16,297</u>	<u>301</u>	<u>78,338</u>
Excess (deficiency) of revenues over expenditures	<u>(483)</u>	<u>22,794</u>	<u>(6,293)</u>	<u>3,056</u>	<u>19,074</u>
Other financing sources (uses):					
Transfers in	-	-	9,661	-	9,661
Transfers out	<u>-</u>	<u>(9,661)</u>	<u>-</u>	<u>-</u>	<u>(9,661)</u>
Total other financing sources (uses)	<u>-</u>	<u>(9,661)</u>	<u>9,661</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(483)	13,133	3,368	3,056	19,074
Fund balances, beginning of year, as restated	<u>18,599</u>	<u>5,877</u>	<u>22,149</u>	<u>301</u>	<u>46,926</u>
Fund balances, end of year	<u>\$ 18,116</u>	<u>\$ 19,010</u>	<u>\$ 25,517</u>	<u>\$ 3,357</u>	<u>\$ 66,000</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 19,074

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	-	
Less depreciation expense	<u>(4,783)</u>	(4,783)

Repayments of principal on notes and bonds is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets. 15,448

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest on notes and bonds payable	<u>301</u>
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Change in net assets of governmental activities \$ 30,040

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

PROPRIETARY FUND – ENTERPRISE FUND

STATEMENT OF NET ASSETS

June 30, 2005

	Sewer Fund
Assets:	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 48,794
Accounts receivable	<u>13,276</u>
Total current assets	<u>62,070</u>
<i>Noncurrent assets:</i>	
Capital assets:	
Nondepreciable capital assets	19,073
Depreciable capital assets, net	<u>979,732</u>
Total noncurrent assets	<u>998,805</u>
Total assets	<u>1,060,875</u>
Liabilities	
<i>Current liabilities:</i>	
Accounts payable and accrued expenses	29,876
Due to other funds	<u>282</u>
Total current liabilities	<u>30,158</u>
Total liabilities	<u>30,158</u>
Net assets:	
Invested in capital assets	998,805
Unrestricted	<u>31,912</u>
Total net assets	<u>\$ 1,030,717</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

PROPRIETARY FUND – ENTERPRISE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2005

	Sewer Fund
Operating revenues:	
Charges for services	\$ 31,386
Penalties	<u>1,576</u>
Total operating revenues	<u>32,962</u>
Operating expenses:	
Personnel	533
Fringe benefits	240
Supplies	204
Contracted services	11,162
Telephone	693
Printing and publishing	301
Insurance	512
Utilities	1,082
Repair and maintenance	2,983
Equipment rental	624
Other services and supplies	819
Depreciation	<u>21,599</u>
Total operating expenses	<u>40,752</u>
Operating income (loss)	<u>(7,790)</u>
Non-operating revenues:	
Interest income	<u>64</u>
Total non-operating revenues	<u>64</u>
Net income (loss)	(7,726)
Net assets, beginning of year, as restated	<u>1,038,443</u>
Net assets, end of year	<u><u>\$ 1,030,717</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

PROPRIETARY FUND – ENTERPRISE FUND

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

	Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 42,543
Cash payments for interfund services	50
Cash payments to employees	(533)
Cash payments to suppliers for goods and services	<u>1,291</u>
Net cash provided by operating activities	<u>43,351</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	<u>(34,665)</u>
Net cash used by capital and related financing activities	<u>(34,665)</u>
Cash flows from investing activities:	
Interest received	<u>64</u>
Net cash provided by investing activities	<u>64</u>
Net increase (decrease) in cash and cash equivalents	8,750
Cash and cash equivalents, beginning of year	<u>40,044</u>
Cash and cash equivalents, end of year	<u><u>\$ 48,794</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (7,790)
Adjustments:	
Depreciation	21,599
Change in assets and liabilities:	
Accounts receivable	9,581
Accounts payable and accrued expenses	19,911
Due to other funds	<u>50</u>
Net cash provided by operating activities	<u><u>\$ 43,351</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

FIDUCIARY FUND – AGENCY FUND
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Payroll Fund</u>
Assets:	
Cash and cash equivalents	<u>\$ 5,895</u>
Liabilities:	
Accounts payable	<u>5,895</u>
Net Assets:	
Unrestricted	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF PRESCOTT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Prescott conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units, if any. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units included in the Village's reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government. These statements distinguish between activities that are governmental and those that are business-type activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements, the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the maintenance and construction of the Village's major street system.

The **Local Street Fund** is used to account for the maintenance and construction of the Village's local street system.

The Village reports the following major enterprise funds:

The **Sewer Fund** is used to account for the revenues and expenses for the operation of a sewer system.

Assets, Liabilities and Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items – Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid expenses in both government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2003.

June 30, 2005

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Vehicles	5-10 years
Equipment	5-15 years

Compensated Absences – It is the Village’s policy to not permit employees to accumulate earned but unused sick and vacation days. Therefore, there is no liability shown in the government-wide financial statements.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations, if any, are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Property Taxes:

Properties are assessed as of December 31. The related property taxes are levied on the following July 1, are due on September 14, and become a lien on December 1 with the final collection date of February 28 before they are added to the county tax rolls.

The 2004 taxable valuation of the Village totaled \$3,152,774, on which ad valorem taxes levied consisted of 5.5406 mills for the Village’s operating purposes.

The delinquent real property taxes of the Village are purchased by Ogemaw County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

VILLAGE OF PRESCOTT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Clerk submits to the Village Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted by adoption by the Village Council.
4. Any revision that alters the total expenditures of any fund must be approved by the Village.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the Village Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over Final Budget</u>
General Fund:			
General government	\$ 16,900	\$ 25,239	\$ 8,339
Public works	9,800	13,199	3,399
Recreation and culture	3,000	6,377	3,377
Special Revenue Funds:			
Major Street Fund - Transfers out	-	9,661	9,661
Local Street Fund - Public works	500	2,572	2,072

NOTE 3: DEPOSITS AND INVESTMENTS

The Village's deposits at June 30, 2005 are included in the statement of net assets under the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 47,150	\$ 48,794	\$ 95,944

VILLAGE OF PRESCOTT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

Deposits

The deposits of the governmental and business-type activities were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$99,624, which is covered by federal depository insurance.

Investments

State statutes authorize the Village to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a Village.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the Village or its agent in the Village's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At year end, the Village had no investments.

NOTE 4: CAPITAL ASSETS

Capital assets activity of the Village's governmental and business-type activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 74,327	\$ -	\$ -	\$ 74,327
Depreciable capital assets				
Buildings and improvements	31,980	-	-	31,980
Vehicles	44,613	-	-	44,613
Equipment	12,296	-	-	12,296
Total depreciable capital assets	88,889	-	-	88,889
Accumulated depreciation	(15,767)	(4,783)	-	(20,550)
Depreciable capital assets, net	73,122	(4,783)	-	68,339
Governmental activities, capital assets, net	<u>\$ 147,449</u>	<u>\$ (4,783)</u>	<u>\$ -</u>	<u>\$ 142,666</u>

VILLAGE OF PRESCOTT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 19,073	\$ -	\$ -	\$ 19,073
Depreciable capital assets				
Sewer system and treatment plant	1,128,658	34,665	-	1,163,323
Accumulated depreciation	(160,993)	(21,598)	-	(182,591)
Depreciable capital assets, net	967,665	13,067	-	980,732
Business-type activities, capital assets, net	<u>\$ 986,738</u>	<u>\$ 13,067</u>	<u>\$ -</u>	<u>\$ 999,805</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Public works	\$ 4,783
Total governmental activities	<u>\$ 4,783</u>
Business-type activities:	
Sewer	\$ 21,598
Total business-type activities	<u>\$ 21,598</u>

NOTE 5: LONG-TERM LIABILITIES

The Village may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village.

Long-term liabilities at June 30, 2005 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at Year-End</u>
<u>Governmental Activities</u>					
<i>General Obligation Bonds:</i>					
2000 Issue - Transportation Fund Bond	8/1/00-8/1/09	4.1-5.3%	\$10,000-15,000	\$ 130,000	\$ 75,000
<i>Loan Payable:</i>					
2000 Issue - Tranctor Loan	7/25/00-7/25/04	5.66%	\$185-355	\$ 12,926	\$ -

VILLAGE OF PRESCOTT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

The following is a summary of long-term liabilities transactions for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds:					
2000 Issue	\$ 90,000	\$ -	\$ (15,000)	\$ 75,000	\$ 15,000
Loan Payable:					
Tractor loan	<u>448</u>	<u>-</u>	<u>(448)</u>	<u>-</u>	<u>-</u>
Total governmental activities					
- long-term liabilities	<u>\$ 90,448</u>	<u>\$ -</u>	<u>\$ (15,448)</u>	<u>\$ 75,000</u>	<u>\$ 15,000</u>

Annual debt service requirements to maturity for the above long-term liabilities are as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 15,000	\$ 3,458	\$ 18,458
2007	15,000	2,715	17,715
2008	15,000	1,958	16,958
2009	15,000	1,186	16,186
2010	<u>15,000</u>	<u>398</u>	<u>15,398</u>
	<u>\$ 75,000</u>	<u>\$ 9,715</u>	<u>\$ 84,715</u>

NOTE 6: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business-type activities in the aggregate are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables:		
Accounts	\$ -	\$ 13,276
Intergovernmental	<u>19,753</u>	<u>-</u>
Total receivables	<u>\$ 19,753</u>	<u>\$ 13,276</u>
Accounts payable and accrued expenses:		
Accounts	\$ 5,127	\$ 29,876
Interest	<u>1,594</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 6,721</u>	<u>\$ 29,876</u>

VILLAGE OF PRESCOTT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 7: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Sewer Fund	\$ 282
Local Street Fund	Major Street Fund	18,451
		<u>\$ 18,733</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Major Street Fund	Local Street Fund	<u>\$ 9,661</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Village manages all of its loss risks with the purchase of commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan

The Village currently does not have a pension plan.

Post Employment Benefits

The Village currently does not provide any post employment benefits.

VILLAGE OF PRESCOTT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 10: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

NOTE 11: PRIOR PERIOD ADJUSTMENT

Expenses were incurred in prior fiscal years in the Sewer Fund that should have been capitalized as construction in progress. In addition, there were expenses paid for by the General Fund for the Sewer Fund that should have been reimbursed by the Sewer Fund. The effect on beginning net assets in the Sewer Fund is as follows:

Net assets, beginning of year	\$ 1,035,935
Add: Expenses incurred fiscal year 2002 that should have been capitalized	311
Less: Expenses paid for by General Fund in fiscal year 2004	(232)
Add: Expenses incurred fiscal year 2004	<u>2,429</u>
Net assets, beginning of year, as restated	<u>\$ 1,038,443</u>

In the prior fiscal year, the General Fund paid expenditures for the Sewer Fund that should have been reimbursed by the Sewer Fund. The effect on beginning fund balance in the General Fund is as follows:

Fund balance, beginning of year	\$ 18,367
Add: Reimbursement from Sewer Fund for expenses paid by General Fund in fiscal year 2004	<u>232</u>
Fund balance, beginning of year, as restated	<u>\$ 18,599</u>

NOTE 12: SUBSEQUENT EVENT

On July 22, 2005, the Village authorized issuance of sanitary sewerage system revenue bonds for acquisition, construction, installation and equipping of a municipal sanitary sewerage system. The Series 2005 Bonds shall be issued in the form of two fully registered bonds in the principal amounts of \$109,000 and \$234,000, which shall be designated "Sanitary Sewerage System Revenue Bond, Series 2005A" and "Sanitary Sewerage System Revenue Bond, Series 2005B", respectively. Interest will be paid on the Series 2005A and Series 2005B Bonds at 4.25% and 4.125%, respectively, payable on the first day of April and October in each year commencing on October 1, 2005. Principal installments shall be due on April 1 in each year commencing on April 1, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF PRESCOTT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues:				
Property taxes	\$ 17,580	\$ 17,580	\$ 17,870	\$ 290
State grants	25,000	25,000	24,933	(67)
Charges for services	600	600	624	24
Interest and rents	375	375	52	(323)
Other revenue	-	-	1,353	1,353
Total revenues	<u>43,555</u>	<u>43,555</u>	<u>44,832</u>	<u>1,277</u>
Expenditures:				
Current				
General government	16,900	16,900	24,784	7,884
Public works	9,800	9,800	13,199	3,399
Recreation and culture	3,000	3,000	6,377	3,377
Capital outlay	-	-	455	455
Debt service				
Principal	2,948	2,948	448	(2,500)
Interest and fees	<u>52</u>	<u>52</u>	<u>52</u>	<u>-</u>
Total expenditures	<u>32,700</u>	<u>32,700</u>	<u>45,315</u>	<u>12,615</u>
Excess (deficiency) of revenues over expenditures	10,855	10,855	(483)	(11,338)
Fund balance, beginning of year, as restated	<u>18,599</u>	<u>18,599</u>	<u>18,599</u>	<u>-</u>
Fund balance, end of year	<u>\$ 29,454</u>	<u>\$ 29,454</u>	<u>\$ 18,116</u>	<u>\$ (11,338)</u>

VILLAGE OF PRESCOTT

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues:				
State grants	\$ 35,000	\$ 35,000	\$ 38,643	\$ 3,643
Interest and rents	750	750	76	(674)
Other revenue	-	-	500	500
Total revenues	<u>35,750</u>	<u>35,750</u>	<u>39,219</u>	<u>3,469</u>
Expenditures:				
Current				
Public works	21,850	21,850	10,965	(10,885)
Debt service				
Principal	4,272	4,272	4,269	(3)
Interest and fees	<u>1,191</u>	<u>1,191</u>	<u>1,191</u>	<u>-</u>
Total expenditures	<u>27,313</u>	<u>27,313</u>	<u>16,425</u>	<u>(10,888)</u>
Excess (deficiency) of revenues over expenditures	<u>8,437</u>	<u>8,437</u>	<u>22,794</u>	<u>14,357</u>
Other financing uses:				
Transfers out	<u>-</u>	<u>-</u>	<u>9,661</u>	<u>9,661</u>
Total other financing uses	<u>-</u>	<u>-</u>	<u>9,661</u>	<u>9,661</u>
Net change in fund balance	8,437	8,437	13,133	4,696
Fund balance, beginning of year	<u>5,877</u>	<u>5,877</u>	<u>5,877</u>	<u>-</u>
Fund balance, end of year	<u>\$ 14,314</u>	<u>\$ 14,314</u>	<u>\$ 19,010</u>	<u>\$ 4,696</u>

VILLAGE OF PRESCOTT

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues:				
State grants	\$ 8,175	\$ 8,175	\$ 10,000	\$ 1,825
Interest and rents	150	150	4	(146)
Total revenues	8,325	8,325	10,004	1,679
Expenditures:				
Current				
Public works	500	500	2,572	2,072
Debt service				
Principal	10,731	10,731	10,731	-
Interest and fees	2,993	2,993	2,994	1
Total expenditures	14,224	14,224	16,297	2,073
Excess (deficiency) of revenues over expenditures	(5,899)	(5,899)	(6,293)	(394)
Other financing sources:				
Transfers in	-	-	9,661	9,661
Total other financing sources	-	-	9,661	9,661
Net change in fund balance	(5,899)	(5,899)	3,368	9,267
Fund balance, beginning of year	22,149	22,149	22,149	-
Fund balance, end of year	<u>\$ 16,250</u>	<u>\$ 16,250</u>	<u>\$ 25,517</u>	<u>\$ 9,267</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF PRESCOTT

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2005

Current taxes:

Property taxes	\$ 17,870
	<u>17,870</u>

State grants:

State revenue sharing - sales tax	24,933
	<u>24,933</u>

Charges for services:

Equipment rental	624
	<u>624</u>

Interest and rents:

Interest	52
	<u>52</u>

Other revenue:

Reimbursements	580
Other	773
	<u>1,353</u>

Total revenues	\$ <u>44,832</u>
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VILLAGE OF PRESCOTT

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2005

General Government:

Council:

Personnel	\$ 2,940
Fringe benefits	1,323
Supplies	3
Contracted services	200
Other	121
	<u>4,587</u>

Clerk:

Personnel	1,250
Fringe benefits	563
Supplies	32
	<u>1,845</u>

Audit:

Contracted services	<u>3,450</u>
	<u>3,450</u>

General Administration:

Contracted services	178
Printing and publications	131
Other	<u>2,177</u>
	<u>2,486</u>

Treasurer:

Personnel	1,000
Fringe benefits	450
Supplies	252
Contracted services	479
Other	<u>131</u>
	<u>2,312</u>

Elections:

Printing and publications	<u>73</u>
	<u>73</u>

Buildings and Grounds:

Personnel	878
Fringe benefits	395
Supplies	667
Contracted services	1,993
Insurance	3,813
Utilities	506
Repairs and maintenance	400
Equipment rental	37
Other	<u>536</u>
	<u>9,225</u>

VILLAGE OF PRESCOTT

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2005

General Government, continued:

Attorney:

Contracted services	\$ 806
	<u>806</u>

Total general government	<u>24,784</u>
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Public Works:

Department of Public Works:

Personnel	671
Fringe benefits	302
Supplies	2,072
Repairs and maintenance	873
Equipment rental	450
Other	1,294
	<u>5,662</u>

Street Lighting:

Utilities	7,537
	<u>7,537</u>

Total public works	<u>13,199</u>
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Recreation and Culture:

Parks and Recreation Department:

Personnel	2,170
Fringe benefits	977
Supplies	574
Contracted services	450
Repairs and maintenance	609
	<u>4,780</u>

Library:

Utilities	1,268
Other	329
	<u>1,597</u>

Total recreation and culture	<u>6,377</u>
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Capital Outlay:

General government	455
	<u>455</u>

Total capital outlay	<u>455</u>
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VILLAGE OF PRESCOTT

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2005

Debt Service:

Principal	\$ 448
Interest and fees	<u>52</u>
	<u>500</u>
 Total debt service	 <u>500</u>
 Total expenditures	 <u>\$ 45,315</u>

VILLAGE OF PRESCOTT

NONMAJOR GOVERNMENTAL FUND
COMBINING BALANCE SHEET
June 30, 2005

	<u>Park Fund</u>
Assets:	
Cash and cash equivalents	\$ 3,357
Total assets	<u>\$ 3,357</u>
Fund Balance:	
Unreserved:	
Special revenue fund	<u>3,357</u>
Total fund balance	<u>\$ 3,357</u>

VILLAGE OF PRESCOTT

NONMAJOR GOVERNMENTAL FUND

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	Park Fund
Revenues:	
Interest and rents	\$ 7
Other revenue	<u>3,350</u>
Total revenues	<u>3,357</u>
Expenditures:	
Current	
Recreation and culture	<u>301</u>
Total expenditures	<u>301</u>
Excess (deficiency) of revenues over expenditures	3,056
Fund balance, beginning of year	<u>301</u>
Fund balance, end of year	<u>\$ 3,357</u>

VILLAGE OF PRESCOTT

FIDUCIARY FUND – AGENCY FUND

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2005

	<u>Beginnng Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Payroll Fund</u>				
Assets:				
Cash and cash equivalents	<u>\$ 3,153</u>	<u>\$ 18,787</u>	<u>\$ 16,045</u>	<u>\$ 5,895</u>
Liabilities:				
Accounts payable	<u>\$ 3,153</u>	<u>\$ 18,787</u>	<u>\$ 16,045</u>	<u>\$ 5,895</u>

VILLAGE OF PRESCOTT

GOVERNMENTAL ACTIVITIES
SCHEDULE OF INDEBTEDNESS
June 30, 2005

Transportation Bond Fund

Issued Dated August 1, 2000 in the amount of	\$ 130,000
Less: Principal paid in prior years	(40,000)
Principal paid in current year	<u>(15,000)</u>
Balance payable at June 30, 2005	<u><u>\$ 75,000</u></u>

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Rate</u></i>	<i><u>Principal due</u></i> <i><u>August 1</u></i>	<i><u>Interest due</u></i> <i><u>August 1</u></i>	<i><u>Interest due</u></i> <i><u>February 1</u></i>	<i><u>Total</u></i>
2006	4.90%	\$ 15,000	\$ 1,913	\$ 1,545	\$ 18,458
2007	5.00%	15,000	1,545	1,170	17,715
2008	5.10%	15,000	1,170	788	16,958
2009	5.20%	15,000	787	398	16,185
2010	5.30%	<u>15,000</u>	<u>397</u>	<u>-</u>	<u>15,397</u>
		<u><u>\$ 75,000</u></u>	<u><u>\$ 5,812</u></u>	<u><u>\$ 3,901</u></u>	<u><u>\$ 84,713</u></u>

Note: Major Street Fund is obligated for 28.4615% and Local Street Fund is obligated for 71.5385%



MANAGEMENT LETTER

To the Village Council
Village of Prescott, Michigan

We have completed our audit of the financial statements of the Village of Prescott for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. As part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Village's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Village's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Village of Prescott taken as a whole. Our study and evaluation disclosed no condition that we believe to be a material weakness. We want to bring the following to your attention however:

During our audit, we prepare a reconciliation of the gross wages reported on the quarterly 941 forms to the gross wages posted. We were unable to prepare this reconciliation in the current year because there was no copy of the third quarter 941 form. In addition, the gross wages reported on the other quarterly 941 forms did not match gross wages recorded on the payroll registers. Therefore, we were unable to determine if the proper amounts were being paid for payroll taxes.

We recommend that copies of all quarterly 941 forms be retained and filed with the payroll records. In addition, closer attention needs to be paid that the correct gross wages are being reported on the quarterly 941 forms. The gross wages reported should match the gross wages recorded on the payroll registers for the same three month period.

This report is intended solely for the use of the Village management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

September 1, 2005

